

Innovators Façade Systems Limited

December 31, 2020

Ratings

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long Term Bank Facilities – Cash Credit	23.75	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities – Letter of Credit/ Bank Guarantee	49.75	CARE A3+ (A Three Plus)	Reaffirmed
Total	73.50 (Rupees Seventy Three crore Fifty Lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Innovators Façade Systems Limited (IFSL) factors in the experienced and resourceful promoters, established track record of the company in the façade fabrication business, association with reputed clientele, a growing order book position and comfortable capital structure and debt coverage metrics. The ratings also factor in investment into backward integration for foraying into cleanroom solutions. The aforementioned ratings' strengths are however tempered by IFSL's moderate scale of operations, moderation in operational & financial performance during FY20 and current fiscal due to disruptions caused by Covid-19 pandemic, extended operating cycle with working capital intensive nature of business and risk associated with the cyclicity in demand from the real estate industry.

The key rating sensitivities are as follows-

Positive factors: Factors that could lead to positive rating action/upgrade

- Expansion of scale of operation with revenue growth above Rs.250 crore.
- Improvement in operating profitability above 15%
- Improvement in operating cycle to 150 days or below

Negative factors: Factors that could lead to negative rating action/downgrade

- Significant decline in scale of operations and/or reduction in PBILDT margin below 8% on a sustained basis
- Inordinate deviation in the overall gearing levels projected

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters

Innovators Façade Systems Limited (IFSL) is an aluminium façade contractor for designing, engineering, fabrication and installation of all types of façade systems. The company is headed by Mr. Radheshyam Sharma, who has a long standing industry experience of more than two decades. IFSL since inception has executed orders amounting to more than Rs.1,241 crore. The company in order to improve the scale of operations and bring in cost efficiencies have set up offices in major metro cities to facilitate marketing as well as project execution (largely for ease in logistics).

Reputed clientele and growing order book position

IFSL has completed projects primarily in Mumbai, Pune and Thane region with reputed corporate clientele and airport projects across India. Over a period of time, IFSL had been able to increase its orders from the existing clientele and also add new corporates like Infosys Limited, Reliance Industries Ltd, Adani Developers, Lodha Group, Aurobindo, Piramal Group, Shapoorji Paloonji etc. While there is client concentration; the same is on account of nature of the industry where there are few large projects and the company undertakes contracts for selective large players.

The order book position as on December 2020 stood at ~Rs.140 crore providing revenue visibility for the next 1-2 years with the company adding orders close to ~Rs.66 crore in current fiscal. The ability of the company to execute its orderbook on a timely basis as well as generate cash flows as anticipated remains crucial from credit perspective.

Foraying into pharmaceutical sector with addition of the cleanroom into product portfolio

The company has invested in backward integration through setting up an automatic conveyerised PVDF powder coating facility at their factory with high capacity machinery to facilitate supply of same to clean room. Given the increasing demand for clean room for the pharmaceutical entities, the company has planned to foray in the segment which is expected to support the expansion of scale of operation.

Satisfactory capital structure & debt coverage metrics

The company got listed on SME platform in May 2018 and raised Rs.40.76 crore from the IPO proceeds which has primarily been used towards funding the large working capital requirement. With the equity coming in, the capital structure of the company improved significantly and remained at similar level at 0.76x as on Mar.31, 2020 vis-à-vis 0.70x as on Mar.31, 2019. The marginal weakening is due to increased LC acceptances. The interest cost for FY20 remained similar vis-à-vis FY19 on the back of repayment of long term debt and lower reliance on working capital borrowings resulting in comfortable interest coverage at 3.23 times in FY20.

Key Rating Weaknesses**Moderate scale of operations and decline in operational performance in FY20**

The company registered revenue de-growth of about 10% in FY20 from FY19 led by lower order execution during the end of the year due to lockdown imposed by COVID 19 pandemic. On the profitability front, the PBILDT margin reported during FY20 was 11.66% (FY19: 14.57% and FY18: 14.20%) lower compared to the previous year but which has remained range bound with an average PBILDT margin of ~13% during the previous three years. However the company reported a net loss of Rs.8.20 crore in FY20 due to a one-time write-off and provisions of Rs.16.07 crore towards trade receivables and retention money due with the customers which are not foreseen as recoverable with 90% of the write-offs amount pertaining to orders executed before FY14. Nevertheless, the cashflow from operation remained at satisfactory level.

Slowdown of business operation in the current fiscal due to Covid-19

The business operation and project work execution has been impacted in the current fiscal due to lockdown imposed by the Government in view of covid-19 pandemic. Given the majority of the company's work execution is in Maharashtra and Delhi wherein the impact of pandemic has been relatively higher and along with labour migration, there has been slowdown of execution in H1FY21. The company's business operation was halted for the period of about two months from the date of imposition of the lockdown ie; Mar 22, 2020 and has gradually resumed thereafter with easing of restrictions. Consequently, the revenue has registered a de-growth of approx. 50% on a y-o-y basis (from Rs.68.5 crore in H1FY20 to Rs.31.6 crore in H1FY21). Profit level has been low. However, the company has been able to maintain margins at about 14% (in line with previous years)

Extended working capital cycle with working capital intensive nature of operations

The company's operations continue to remain working capital intensive in nature with debtors recovered within 30 to 45 days' time, retention money of 5% associated with the contracts and close to about 15% of revenue booked in the month of march mainly due to the cyclical execution of infrastructure related projects more during the second half of the year due to effect of monsoon in the first half, resulting in large portion of unbilled revenue (22% in FY19 and 14% in FY20). This apart, the inventory days has been on the higher side. The company is into execution of specialized facades work with design, fabrication and execution done by them. Hence for any project, they place order for the materials for a bulk portion resulting in raw material inventory for about 3-4 months due to the nature of fabrication procedures and also for smooth execution of work. Also the raw material at the project site which is not billed is also captured in raw material inventory. Consequently, the operating cycle has been on the higher side. However, the company has been able to manage the working capital requirements through equity raised thereby lowering reliance on working capital limits. Prudent management of working capital along with optimization of receivables would remain important from credit perspective.

Adequate liquidity

The liquidity position is adequate with minimal debt repayment obligations vis-à-vis the cash accruals. The debt repayment during FY21 is projected at Rs.6.38 crore (including unsecured loans) out of which Rs.5.33 crore is already repaid during H1FY21. The reliance on external funds has also reduced with incremental working capital requirement being met through IPO proceeds. The average fund based bank limit utilization stood at 82.63% during the trailing twelve months ended Sept 2020 with an average unutilized limit of ~Rs.5 crore. The company availed moratorium for on term loan and CC for the period March 2020 to August 2020. The free cash balance stood at Rs.0.47 crore as on September 30, 2020.

Analytical approach: Standalone**Applicable Criteria**

[Criteria on assigning Outlook and Credit Watch](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Innovators Facade Systems Limited (IFSL), incorporated in 1999, is an Aluminium Facade contractor for designing, engineering, fabrication and installation of all types of facade systems. The product line of the company includes glazing/curtain walls, high end doors and windows, skylights, canopies, louver, stone cladding, metal cladding and roofing. The fabrication and glazing facilities are situated at Wada, Thane in Maharashtra spread over area of 1.25 lakh square feet. IFSL has set up 5 branch offices at Delhi, Mumbai and Bengaluru.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	158.76	142.43
PBILDT	22.55	16.61
PAT	4.71	-8.20
Overall gearing (times)	0.70	0.77
Interest coverage (times)	4.47	3.23

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	23.75	CARE BBB; Stable
Non-fund-based - ST-LC/BG	-	-	-	49.75	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (06-Apr-18)	-
2.	Fund-based - LT-Cash Credit	LT	23.75	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Oct-19)	1)CARE BBB; Stable (23-Oct-18) 2)CARE BBB-; Positive (02-May-18) 3)CARE BBB-; Positive (06-Apr-18)	-
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (06-Apr-18)	-
4.	Non-fund-based - ST-BG/LC	ST	33.75	CARE A3+	-	1)CARE A3+ (04-Oct-19)	1)CARE A3+ (23-Oct-18) 2)CARE A3 (02-May-18) 3)CARE A3 (06-Apr-18)	-
5.	Non-fund-based - ST-BG/LC	ST	16.00	CARE A3+	-	1)CARE A3+ (04-Oct-19)	1)CARE A3+ (23-Oct-18) 2)CARE A3 (02-May-18) 3)CARE A3 (06-Apr-18)	-
6.	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	-	-	1)Withdrawn (06-Apr-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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